

Bikanervala Foods Private Limited

February 22, 2019

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Fund Based - Term Loan	64.49	56.00	[ICRA]A+ (Positive); Rating reaffirmed; outlook revised to positive from stable
Fund Based - Working Capital Facilities	37.60	37.60	[ICRA]A+ (Positive); Rating reaffirmed; outlook revised to positive from stable
Non-fund Based - Working Capital Facilities	9.50	9.50	[ICRA]A1+; Reaffirmed
Unallocated Limits	0.41	8.90	[ICRA]A+ (Positive)/ [ICRA]A1+; Ratings reaffirmed; outlook revised to positive from stable
Total	112.00	112.00	

*Instrument details are provided in Annexure-1

Rationale

The revision in outlook takes into account the consistent improvement in Bikanervala Foods Private Limited's (BFPL) turnover, along with improvement in profitability in FY2018, which is expected to continue during the current fiscal as well. These have resulted in healthy internal accrual generation, which coupled with the inherently low working capital intensity of business and low debt repayment obligations, have translated into the company's strong liquidity position. BFPL also has sizeable cushion in working capital limits against the drawing power. The steady cash flows have been utilised to fund the capex and reduce reliance on debt. These factors have increased financial flexibility and led to robust debt coverage indicators as reflected by interest coverage of 58x, total debt/OPBDITA of 0.51x, NCA/debt of 141% and DSCR of 7.8x as on March 31, 2018. The ratings continue to be supported by the extensive experience of BFPL's promoters, its wide product portfolio, its well-entrenched distribution network across northern India, and its strong market position in the packed food industry on the back of established presence and brand equity of the Bikanervala and Bikano brands. These factors, coupled with consistent enhancement in capacities, have enabled BFPL to report healthy operating income (OI) growth. Going forward, the expansion of manufacturing capacities and retail outlets, steady demand and geographical expansion in other territories are expected to drive revenue growth.

However, the ratings are constrained by BFPL's exposure to stiff competition from branded packaged food players, both large multinationals, medium-sized domestic players as well as local sweets/*namkeen* manufacturers. Although a strong brand hedges against raw material price movements, the company has witnessed fluctuations in OPBDITA margins in the last few years. ICRA has taken note of the capital expenditure planned over the next two years, which is expected to result in an increase in debt levels and expose the company to execution risks. Also, the sizeable capex in Hyderabad has facilitated the company's deeper penetration into southern India. However, its ability to entrench itself remains to be seen. The ratings also factor in that quality would remain a risk for the company as it operates in the food industry.

The ability of the company to maintain growth in turnover as well as steady profitability along with expansion in new territories, and the quantum and funding of capital expenditure remain the key rating sensitivity.

Outlook: Positive

The Positive outlook reflects ICRA's expectation that BFPL will continue to report healthy OI growth as well as maintain steady profitability. This, along with maintaining a conservative stance towards debt-funded capacity expansion plans, is likely to support the debt coverage indicators.

Key rating drivers

Credit strengths

Extensive experience of promoters – BFPL's promoters, Mr. Shyam Sunder Aggarwal and his family members, have close to three decades of experience in the packaged snack food industry.

Strong recognition for Bikano brand in sweets/*namkeens* market of northern India – Bikano is a well-recognised brand in the sweets and *namkeens* market and enjoys good brand recognition and customer acceptance in northern India. However, it faces stiff competition from other established brands like Haldiram, Lays, Kurkure, Yellow Diamond, Balaji etc. in addition to local players.

Favourable demand outlook for packed foods industry in India – The demand for packed foods is driven by factors such as a large population base, increasing spending ability and shift towards branded product consumption.

Extensive distribution network – BFPL sells its products through a network of super-stockists, distributors and retailers across northern India. These apart, the company and its franchisees operate Bikanervala outlets in northern India. The established distribution network of the Group and strong brand recognition of the Bikanervala brand make it relatively easier for the company to introduce products.

Diverse revenue streams – BFPL generates its revenues from multiple sources like product sales, royalty income from franchisee stores, and job-work income from manufacturing Kurkure *namkeens* for PepsiCo. Product sales remain the primary contributor to revenues making up for 95% of the total sales, of which sweets and *namkeens* contribute more than 70%.

Healthy growth in OI and improvement in profitability – The OI grew 17% on the back of capacity expansion to reach Rs. 776 crore in FY2018. Moreover, favourable raw material prices led to improvement in profitability to 11.4% in FY2018 from 9.8% in FY2017.

Low working capital intensity of operations and healthy liquidity position – The working capital intensity of the business inherently remains low. Due to the perishable nature of inventory, the overall inventory levels too remain low. This, coupled with low credit period offered, reduces the receivable levels as well. Low working capital intensity, coupled with low debt repayment and moderate capex, has translated into a strong liquidity position.

Consistently healthy capital structure; coverage indicators remain robust – The total debt on the books of the company remains low, resulting in a healthy capital structure as reflected by gearing of 0.22x as on March 31, 2018. Further, higher profitability amid low debt levels has led to improvement in coverage indicators, which have remained robust, as reflected by interest coverage of 58.1x, debt/OPBDITA of 0.51x and NCA/debt of 141% as on March 31, 2018.

Credit weaknesses

Sizeable capex plans to increase reliance on debt; coverage indicators to remain healthy – BFPL is undertaking a sizeable capex and has plans for the next few years, which will be debt funded. However, the debt funding is expected to

remain low given the healthy accruals. Thus, the coverage indicators are expected to remain healthy. Nevertheless, the reliance on debt is expected to increase going forward.

Competition from local manufacturers as well as established players – Despite having a well-established brand, BFPL is not insulated from competition from local manufacturers of sweets and snacks and established participants like Pepsi Co. India, ITC Limited, Haldiram Snacks Private Limited, Balaji Wafers Private Limited, Prataap Snacks Private Limited etc.

Risks related to foray into southern India – BFPL plans to foray into the southern markets and is establishing a manufacturing facility in Hyderabad. This is associated with the inherent execution and market risks given that it will be a new market for the company in terms of taste, product acceptability, pricing and distribution reach. The ability of the company to establish itself in these markets remains to be seen.

Quality risks – Being in the food industry, risks regarding quality and reputation remain high.

Liquidity position

The liquidity profile remains strong as the business is inherently low working capital intensive and has healthy cash flow generation. Moreover, healthy cushion in the fund-based limits, coupled with cash balances of more than Rs. 20 crore, augment the company's liquidity position, despite sizeable capex plans going forward.

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	Corporate Credit Rating Methodology
Parent/Group Support	Not applicable
Consolidation / Standalone	Standalone - the rating is based on the standalone financial profile of the company

About the company

BFPL was incorporated in 1988 by Mr. Shyam Sunder Aggarwal. The company is involved in manufacturing *namkeens*, sweets, biscuits etc. under the brand name of Bikano through its manufacturing facilities in Delhi, Greater Noida and Rai. The company also owns, operates and franchisees restaurants under the brand name, Bikanervala.

In FY2018, the company reported a net profit of Rs. 44.8 crore on an OI of Rs. 775.7 crore compared with a net profit of Rs. 30.3 crore on an OI of Rs. 663.4 crore in the previous year.

Key financial indicators (audited)

	FY2017	FY2018
Operating Income (Rs. crore)	663.4	775.8
PAT (Rs. crore)	30.3	44.8
OPBDIT/OI (%)	9.8%	11.4%
RoCE (%)	27.8%	38.2%
Total Debt/TNW (times)	0.15	0.22
Total Debt/OPBDIT (times)	0.37	0.51
Interest coverage (times)	29.10	58.14

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for last three years

		Current Rating (FY2019)			Chronology of Rating History for the past 3 years				
Instrument	Type	Amount Rated (Rs. crore)	Amount Outstanding as on Mar 31, 2018 (Rs. crore)	Date & Rating February 2019	Date & Rating in FY2018			Date & Rating in FY2017	Date & Rating in FY2015
					February 2018	January 2018	December 2016		
1 Term Loans	Long Term	56.0	41.3	[ICRA]A+ (Positive)	[ICRA]A+ (Stable)	[ICRA]A+ (Stable)	[ICRA]A+ (Stable)	-	-
2 Fund-based Working Capital Limits	Long Term	37.6	NA	[ICRA]A+ (Positive)	[ICRA]A+ (Stable)	[ICRA]A+ (Stable)	[ICRA]A+ (Stable)	-	-
3 Non-fund Based Limits	Long Term	9.5	NA	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1		
4 Unallocated Limits	Long Term/ Short Term	8.9	NA	[ICRA]A+ (Positive)/ [ICRA]A1+	[ICRA]A+ (Stable)/ [ICRA]A1+	[ICRA]A+ (Stable)/ [ICRA]A1+	[ICRA]A+ (Stable)/ [ICRA]A1		-
Total		112.0	-						

Complexity level of the rated instrument

ICRA has classified various instruments based on their complexity as "Simple", "Complex" and "Highly Complex". The classification of instruments according to their complexity levels is available on the website www.icra.in

Annexure-1: Instrument Details

ISIN No	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
	Term Loans	FY2015	NA	FY2024	56.0	[ICRA]A+ (Positive)
	Cash Credit	NA	NA	NA	37.6	[ICRA]A+ (Positive)
	Non fund based limits	NA	NA	NA	9.5	[ICRA]A1+
	Unallocated limits	NA	NA	NA	8.9	[ICRA]A+ (Positive)/ [ICRA]A1+

Source: Bikanervala Foods Private Limited

Annexure-2: List of entities considered for consolidated analysis

Company Name	Ownership	Consolidation Approach
Not applicable	Not applicable	Not applicable

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